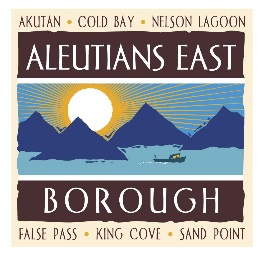
****

**Akun - Akutan Transportation Link - White Paper**

*Prepared for the Aleutians East Borough Mayor and Assembly*

The Aleutians East Borough (AEB) has been operating a marine transportation link between the Akutan Airport, located on Akun Island, and the City of Akutan, since the fall of 2012. For more than a year, a hovercraft served as the marine link. However, about 33% of the time, the craft was unable to operate due to inclement weather and adverse sea conditions. In addition, the cost of the operations became too expensive and was unsustainable. The Borough substituted the hovercraft with a helicopter service in February 2014. Although the helicopter service costs nearly $1 million less annually to operate than the hovercraft did, it is still a very high expense for the AEB to bear. The Borough administration has determined the ultimate answer would be to construct a dock and breakwater, so a conventional vessel could operate as the marine link between Akun and the community of Akutan. The Borough currently has $5,380,330 available for this project. Discussions between the Borough, the U.S. D.O.T., the U.S. Army Corps of Engineers, the City of Akutan and the State of Alaska regarding the Akun – Akutan dock and breakwater project are ongoing.

**History:**

* **Jan. 14, 2010**: The Aleutians East Borough Assembly approved Resolution 10-8, which allowed the Borough to enter into a co-sponsorship agreement (CSA) with the State of Alaska - DOT& PF and the City of Akutan for construction and operation of the Akutan Airport on Akun Island. The AEB agreed to acquire, operate and maintain appropriate hovercraft equipment and crew as necessary to provide reasonable public access between the community of Akutan and the airport for a minimum of twenty (20) years.
* The AEB retrofitted and upgraded a hovercraft it was previously using between the communities of King Cove and Cold Bay.
* **August 2012**: Construction of the Akutan Airport was completed.
* **Aug**. **17, 2012**: The AEB hovercraft arrived in Akutan.
* **Sept**. **1, 2012**: Alaska DOT & PF opened the Akutan Airport. The project included a new 4,500-foot paved runway and support facilities, including a snow removal equipment building.
* **Nov. 28, 2012**: Grant Aviation began offering scheduled air service between Unalaska and Akutan.
* **Jan**. **28, 2013**: The Borough submitted an FY ’14 CAPSIS (Capital Project Submission & Information System) request to the State, requesting $1,000,000 for the Akutan Airport transportation link to the community of Akutan. No funds were dispersed from the State to the Borough for this request.
* A hovercraft operation, financed by the Aleutians East Borough, and subcontracted to Hoverlink, provided transportation between Akun, where the airport is situated, and the City of Akutan, located seven miles away.
* **June 2013:** A study on vessels that may work to provide a marine link from the airport on Akun to the community of Akutan in the future, was commissioned by the Borough and conducted by Tyler Rental, Inc.
* **Nov. 2013:** Due to the high expense of operating the hovercraft, the Akutan Airport Alternative Working Group (made up of the City of Akutan, the AEB, Alaska DOT&PF, FAA, Trident, local air carriers and Hoverlink) reviewed other options for a marine link that might be less expensive. One option that was considered was a helicopter operation.
* The AEB issued an RFP from carriers interested in providing helicopter service. Four proposals were received. A committee was formed to determine which carrier the Borough would hire. Maritime Helicopters was the top candidate.
* The AEB administration suggested that the ultimate answer may be to construct a dock and breakwater, so a conventional vessel could operate as the marine link between Akun and the community of Akutan. That would cost several million dollars and requires coordination between the State of Alaska, the FAA, the U.S. Corps of Engineers and other agencies to complete.
* **Jan. 30, 2014**: The Borough submitted an FY ’15 CAPSIS request to the State, requesting $1,000,000 for the Akutan Airport transportation link to the community of Akutan. No funds were dispersed from the State to the Borough for this request.
* **Feb. 15, 2014**: After a little more than a year, the AEB shut down the hovercraft operations because it was too expensive to operate. The craft performed well under favorable weather conditions, however, about 33% of the time, it was unable to operate due to inclement weather and adverse sea conditions.
* **February 16, 2014**: The Borough began providing a helicopter link between Akun and Akutan, subcontracted by Maritime Helicopters.
* **April 17, 2014**: The AEB put the 95’ BHT-150 hovercraft up for sale. Kvichak Marine Industries, Inc. assisted with the process of the sale and would receive a 5% commission.
* **June 10, 2014**: Two bids for the hovercraft were submitted by the due date. After reviewing the bids and based upon the advice of the Borough attorney, the AEB rejected the bids because they were below the $6 million minimum bid set in the invitation for bids. Other entities expressed an interest afterward.
* **August 2014**: After seven months of operations, the helicopter service demonstrated having a 90% reliability rate. Since mid-February 2014, it transported 2,500 passengers, 80,000 lbs. of mail and 18,000 lbs. of freight.
* **Aug. 8, 2014**: Amendment #1 was made to the co-sponsorship agreement, via AEB Assembly Resolution 14-07, approved on Nov. 6, 2013. The purpose of making the changes related to the Borough’s responsibilities to acquire, operate and maintain a hovercraft to provide “reasonable public access” to the Akutan Airport. It amended the allowed uses of funds dedicated for the hovercraft, authorizing the Borough to substitute helicopter transport as reasonable public access to the Akutan Airport and removing the $500,000 cash contribution by the City of Akutan. The amendment also allowed for the use of funds needed to set up a fuel system in Akutan for the helicopter.
* **November 2014**: A study on vessels that may work to provide a marine link from the airport on Akun to the community of Akutan in the future, was commissioned by the Borough and conducted by Alton Bay.
* **Nov. 10, 2014**: Alaska DOT&PF completed Akun Island Harbor conceptual designs for the dock and breakwater project.
* **Dec. 22, 2014**: Cruz Marine, LLC submitted a letter of intent to purchase the Suna-X hovercraft and related spare parts and tools for $4.5 million. A deposit of $150,000 was required.
* **Jan**. **8, 2015**: The AEB Assembly approved Resolution 15-12, which authorized the Borough mayor to enter into a purchase/sale agreement with Cruz Marine, LLC for the used hovercraft and related spare parts and tools for $4.5 million. The closing date was scheduled for Feb. 27, 2015.
* **Jan**. **29, 2015**: The Borough submitted an FY ’16 CAPSIS request to the State, requesting $500,000 for the Akutan Airport transportation link to the community of Akutan. No funds were dispersed from the State to the Borough for this request.
* **Feb. 27, 2015:** Cruz Marine, LLC requested a 30-day extension to its closing date, which was set by the original letter of intent for Feb. 27, 2015 to complete their financing arrangements with its business partner. The Borough agreed to the extension scheduled for the end of the business day on March 27, 2015.
* **March 27, 2015:** Cruz Marine, LLC failed to close on the hovercraft sale by the end of the business day on March 27, 2015 and therefore forfeited their $150,000 deposit. The Borough continued to work with Kvichak Marine Industries, Inc. to market and sell the hovercraft.
* **Feb.** **12, 2016**: The Borough submitted an FY ’17 CAPSIS request to the State, requesting $1,000,000 for the Akutan Airport transportation link to the community of Akutan. No funds were dispersed from the State to the Borough for this request.
* **Sept**. **2016**: The AEB Administrator’s report stated that based on 2 ½ years of operations, it appeared that the annual operating costs for the helicopter service was approximately $1.8 million with estimated revenues of $520,000 and a net operating loss of approximately $1, 280,000.
* **Sept**. **8, 2016**: HDR completed an Akun Island Harbor Data Compilation and Gap Analysis for the Borough. The report examines existing compliance studies, reports, permits and authorizations as well as potential regulatory requirements associated with the proposed dock and breakwater facility. The gap analysis reviewed past field work and site visits to determine whether anything further might be required to support the project.
* **Oct. 28, 2016**: The Borough wrote a letter to Alaska Governor Bill Walker respectfully requesting an addition to the FY 2018 budget for $1.5 million in state funding to provide the state share of the required subsidy for a two-year period. The Borough stated it supports adding language in the budget bill to make the appropriation contingent on the AEB providing a match of $1 for every $1 of state money spent up to a maximum of $1.5 million in match funds.
* **Jan**. **11, 2017**: The Borough submitted an FY ’18 CAPSIS request to the State, requesting $1,500,000 for the Akutan Airport transportation link to the community of Akutan. No funds were dispersed from the State to the Borough for this request.
* **Feb**. **16, 2017:** The Aleutians East Borough submitted a letter to the U.S. Army Corps of Engineers Alaska District, requesting assistance of the Corps in the construction of a small navigation project (dock and breakwater) at Akun Island. The Borough is waiting for a response from the Army Corps regarding this request.
* **April 15, 2017**: The helicopter schedule changed to two flights per day, six days a week in response to Grant Aviation’s new flight schedule between Dutch Harbor and Akutan.
* Since the helicopter service began (Feb. 2014) to April 2017, it has moved 10,767 passengers, 565,586 pounds of mail and freight, 8 medevacs, 59 charters, 848 charter passengers and 4,150 pounds of charter mail and freight.
* **July 6, 2017:** Amendment #2 was made to the co-sponsorship agreement, approved by the AEB Assembly via Resolution 17-25 on June 30, 2017. The purpose of making the changes was to use up to $1.5 million of the $3,100,000 in state funds from the City of Akutan’s FY 2006 general fund grant, extended by re-appropriation in FY 2014, to help subsidize the costs of the helicopter operations, and extend the deadline provided in CSA Amendment #1 for investigation, and if necessary, committing to an alternative access solution.
* **Oct.** **18, 2017**: The Alaska Delegation sent a letter to the Lieutenant General of the U.S. Army Corps, supporting the request by Aleutians East Borough to initiate a Section 107 general investigation into the construction of a breakwater or wave barrier on Akun Island in the Aleutians. (The goal would be to also build a dock at some point in the future for a traditional vessel that would transport passengers between the airport and the community of Akutan.)
* **December 2017:** JSC “Circle Maritime Invest” sent a letter of interest for the used hovercraft for $4,270,000 with a return option. The Borough negotiated the price to $4,440,000. A retainer of $215,000 was received.
* **Dec.** **14, 2017**: The AEB Assembly approved Resolution 18-18, authorizing the Borough Mayor to negotiate and execute an agreement with Hoverlink, LLC (to agree to assume the risk) to transfer the responsibility of the return for credit option with Circle Marine Invest from the Borough to Hoverlink, LLC.
* **Dec.** **14, 2017**: The AEB Assembly approved Resolution 18-19, allowing the Borough Mayor to negotiate and enter into a purchase/sale agreement with JSC “Circle Maritime Invest” for the hovercraft, including spare parts and materials, in the amount of $4,440,000 with a return credit option by the Borough or its agent.
* **2017 and 2018**: Discussions between the Borough, the U.S. D.O.T., the U.S. Army Corps of Engineers, the City of Akutan and the State of Alaska are ongoing regarding the Essential Air Service and constructing a dock and breakwater on Akun so a conventional vessel could operate as the marine link between Akun and the community of Akutan.
* **Jan**. **18, 2018**: The Borough submitted an FY ’19 CAPSIS request to the State, requesting $300,000 for an Akun Dock and Breakwater Feasibility Study. No funds were dispersed from the State to the Borough for this request.
* **Feb**. **28, 2018:** The Aleutians East Borough received $4,440,000 from JSC “Circle Maritime Invest” for the hovercraft, spare parts and materials. Those funds were transferred to the Borough’s general fund.
* **May 10, 2018**: The Borough Assembly approved appropriation recommendations from the sale proceeds of the hovercraft, spare parts and materials, to two federally-approved transportation projects: the Akutan Airport Transportation Link and the King Cove Access Project. Financial details are outlined below in the funding section of this document, dated May 10, 2018.
* **Aug. 9, 2018:** The Aleutians East Borough Assembly approved CSA (Co-Sponsorship Agreement) Amendment #3. Changes in the amendment include:
* Authorizing the City of Akutan to use the remaining balance of the $3.1 million City General Fund Grant, estimated to be about $1,581,680, to fund the Akutan Boat Harbor Utility Project.
* With the addition of $2,500,000 by the AEB from the proceeds of the recent Suna-X hovercraft sale, the net effect of these items results in a new, estimated balance of $5,380,330 of remaining or available balance to spend on the Akun Airport Access Project.
* **Sept. 5, 2018**: Since inception (Feb. 17, 2014), the helicopter operations transported a total of 14,197 passengers, carried 739,270 pounds of mail and freight, transported 16 medical evacuation patients, conducted 116 charters, carried 1,761 charter passengers and 4,150 pounds of charter freight.

**Funding:**

* **Oct. 2, 2007**: Aleutians East Borough residents approve Proposition A, which designated $5 million in general obligation bonds for the construction of the Akutan Airport and other transportation/economic development projects. Three million dollars went toward the Akutan Airport project. Two million went toward completing other Borough projects as needed through the transportation improvement plan, including the Sand Point, False Pass and Akutan Harbors.
* **Feb. 24, 2010:** The co-sponsorship the Borough had entered into with Alaska DOT&PF and the City of Akutan included the following for the marine link: The parties had initially committed to the purchase of a new hovercraft and support equipment. A total of $11,424,550 was budgeted for this purpose. As part of the agreement:
* The Borough agreed to set aside $3,000,000 of General Obligation bond receipts for the acquisition of a hovercraft vehicle. The Borough also agreed to set aside $250,000 of local general funds for the hovercraft vehicle.
* Trident Seafoods contributed $1,000,000 to the hovercraft purchase.
* The City of Akutan agreed to contribute $500,000 for acquisition of the hovercraft vessel.
* The parties agreed to the allocation of three capital budget appropriations toward the hovercraft purchase: FY07 - $1,000,000 (state funding appropriation); FY09 - $3,000,000 (state general fund match), and FY06 with name change in FY10 - $3,100,000 (City of Akutan grant). The Borough had the lead role with regard to the hovercraft purchase. All parties were to coordinate any payments from these funding sources with Borough as lead for this project component.
* DOT&PF agreed to reimburse the Borough the amount of $100,000, subject to final approval of this agreement, used for down payment on hovercraft construction. The Borough was responsible for providing funding directly to the Hovercraft vendor to secure the purchase of the hovercraft. Upon submission of detailed invoices, DOT&PF would provide the Borough the Department’s share of funding for the vehicle.
* **2012**: Before proceeding with the acquisition of a new hovercraft that would operate between Akun and Akutan, the parties of the co-sponsorship agreement decided against purchasing a new hovercraft. Instead, the parties decided to use the Suna-X (the hovercraft previously used as the marine link between King Cove and Cold Bay).
* The Borough spent approximately $4,950,689 to conduct repairs, upgrades, training and other related costs on the Suna-X hovercraft prior to initiating the marine link between Akun and Akutan. Repairs included winterizing, operational manuals, training and owner sea trials required to attain U.S. Coast Guard operating certification and other one-time start-up costs to relocate the hovercraft from King Cove to Akutan.
* **Between Nov. 28, 2012 and February 15, 2014**: The cost to the Borough for the hovercraft operations link between Akun and Akutan was approximately $2.5 million per year (net cost).
* **Feb. 15, 2014:** The AEB shut down the hovercraft operations due to the high cost.
* **Feb. 16, 2014:** The Borough began providing the helicopter link between Akun and Akutan.
* **May 2014:** As of this date,the balance remaining (from the parties of the co-sponsorship agreement contributing funds) for the Akun – Akutan marine link was $6,049,311.
* **August 2014:** During the seven months of the helicopter marine link, the operation has cost approximately $1 million less than the hovercraft.
* **June 2017:** The total estimated subsidy by the Aleutians East Borough for the Akun – Akutan marine link from inception of service (Sept. 2012) through June 2017 is just under $9.5 million (net cost).
* **June 30, 2017:** The AEB Assembly passed Resolution 17-25. Due to the high cost to maintain and operate the helicopter operation, the Borough has worked with the State of Alaska and the City of Akutan to help determine a solution to alleviate the Borough’s financial burden. Amendment No. 2 of the Co-Sponsorship Agreement will use a portion of the $3,100,000 in state funds from the City of Akutan’s FY2006 general fund grant, extended by re-appropriation in FY2014, to help subsidize the costs of helicopter operations, and extending the deadline provided in CSA Amendment No. 1 for investigating, and if necessary, committing to an alternative access solution as set forth in Section 5 of Amendment No. 1.
* **Feb. 28, 2018:** The hovercraft sale proceeds in the amount of $4,440,000 were received by the Aleutians East Borough on February 28, 2018.
* **May 10, 2018:** Ordinance No. 18-10 was approved by the Aleutians East Borough Assembly. The ordinance would disperse the hovercraft sale proceeds to the Borough and the City of Akutan in the following manner: $543,423.02 would be appropriated to the Borough for costs associated with the sale of the hovercraft. That amount includes the $212,000 Broker fee; the $200,000 Hover Link fee for assuming the buyback responsibility; $127,173.70 in attorney fees and $4,249.32 in other fees associated with the sale.
* $2,500,000 was allocated to go to the Akutan Airport transportation link. These funds could be used for, but are not limited to a traditional vessel feasibility study: Akun Dock and Breakwater Feasibility Study and Construction.